MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BFN 2114 – INVESTMENTS

(ALL SECTIONS)

6 MARCH 2018
2.30 P.M. – 4.30 P.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 6 pages with **TWO** sections.
2. Answer **ALL** questions in **Sections A and B.** The marks for each section are given in the question paper.
3. Please write your answers for Section A and B in the answer booklet.

SECTION A (40 marks): Answer ALL questions. Choose the best answer. Each question carries 2 marks.

1. Which of the following is correct?

   a. If estimated value > Market price, you should buy.
   b. If estimated value > Market price, you should sell.
   c. If estimated value < Market price, you should sell.
   d. If estimated value < Market price, you should buy.
   e. Choices a and c.

2. The price-earnings (P/E) ratio is determined by

   a. The required rate of return.
   b. The expected dividend payout ratio.
   c. The expected growth rate of dividends.
   d. Choices a and b
   e. All of the above

3. A company has a dividend payout ratio of 35 percent. If the company's return on equity is 15 percent, what is the expected growth rate if no new outside financing is used?

   a. 4.50%
   b. 5.25%
   c. 7.75%
   d. 8.25%
   e. 9.75%

4. Which of the following is an underlying assumption of the constant growth dividend discount model (DDM)?

   a. Dividends have a constant growth rate
   b. The constant growth rate of dividends will continue for an infinite time period
   c. The required rate of return is greater than the expected growth rate
   d. All of the above
   e. None of the above

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5. In 2016, CasaLife Berhad issued a RM100 par value preferred stock that pays a 9 percent annual dividend. Due to changes in the overall economy and the company's financial condition investors are now requiring a 10 percent return. What price would you be willing to pay for a share of the preferred if you receive your first dividend one year from now?

   a. RM100
   b. RM110
   c. RM75
   d. RM90
   e. RM85

6. Antport Berhad's last dividend was RM2.70 and the directors expect to maintain the historic 3 percent annual rate of growth. You plan to purchase the stock today because you feel that the growth rate will increase to 5 percent for the next three years and the stock will then reach RM25 per share. How much should you be willing to pay for the stock if you require a 17 percent return?

   a. RM16.97
   b. RM22.16
   c. RM21.32
   d. RM32.63
   e. RM23.63

7. The index of leading indicators includes all of the following, **except**:

   a. M2 money supply.
   b. Standard & Poor 500 index.
   c. Orders for plant and equipment.
   d. Changes in the sensitive materials price.
   e. Index of industrial production.

8. If interest rates increase due to inflation, but expected cash flows to a firm do not change, then you would expect stock prices to

   a. Rise.
   b. Rise and then decline.
   c. Remain unchanged.
   d. Decline.
   e. None of the above.

Continued...

9. The dividend payout ratio for the aggregate market is 55 percent, the required rate of return is 15 percent, and the expected growth rate for dividends is 7 percent. Compute the current earnings multiple.

   a. 3.93
   b. 78.6
   c. 6.88
   d. 39.3
   e. None of the above

10. Which of the following are **not** cyclical indicators?

   a. Lagging indicators
   b. Coincident indicators
   c. Diffusion indicators
   d. Leading indicators
   e. None of the above

11. What might cause an industry's sales to decline?

   a. Changes in consumer tastes
   b. Product obsolescence
   c. Growth of substitute products
   d. Sluggish economic growth
   e. All of the above

12. In which industrial life cycle stage do sales correlate highly with an economic series or the economy in general?

   a. Pioneering development
   b. Rapidly accelerating growth
   c. Mature growth
   d. Stabilization and market maturity
   e. Deceleration of growth and decline

Continued...

13. During which stage of the industrial life cycle is the product or service recognized as viable and the demand substantial?

    a. Early pioneering development
    b. Rapid accelerating growth
    c. Acquisition and consolidation
    d. Mature growth
    e. Stabilization and market maturity

14. During a recession which industry is *most likely* to excel?

    a. Consumer staples
    b. Consumer durables
    c. Basic industries
    d. Financial stocks
    e. Capital goods

15. Which of the following statements regarding cyclical industries is **true**?

    a. Cyclical industries are affected by changes in consumer sentiment.
    b. Cyclical industries are not affected by the consumer's willingness to borrow and spend money.
    c. Cyclical industries often outperform other sectors during a recession.
    d. All of the above statements are true.
    e. None of the above statements are true.

16. In Berkshire Hathoway annual reports, Warren Buffet highlights business tenets that he believes are important. Which of the following is **not** a business tenet of Warren Buffet?

    a. Is the business unique and technologically advanced?
    b. Does the business have a consistent operating history?
    c. Does the business have favorable long-term prospects?
    d. a and b above.
    e. All of the above are business tenets of Warren Buffet.

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17. A growth company is one that has the ability to

    a. Acquire capital at a low cost and is able to invest in projects that yield an average return.
    b. Acquire capital at a low cost and is able to invest in projects that yield a below average return.
    c. Acquire capital at an average cost and is able to invest in projects that yield an above average return.
    d. Acquire capital at an average cost and is able to invest in projects that yield an average return.
    e. Acquire capital at an above average cost and is able to invest in projects that yield an average return.

18. Porter contends that ____ and ____ are two important competitive strategies.

    a. Low cost leadership, barrier to entry
    b. New entrant deterrent, differentiation
    c. Low cost leadership, differentiation
    d. Differentiation, monopolistic
    e. Monopolistic simulation, differentiation

19. A ____ stock possesses a high probability of low or negative rates of return and a low probability of normal or high rates of return.

    a. Growth
    b. Defensive
    c. Cyclical
    d. Speculative
    e. Value

20. Joy Berhad has just paid dividends of RM3 per share. The earnings per share for the company was RM4. If you believe that the appropriate discount rate is 15% and the long term growth rate in dividends is 6%, and earnings is 6%, the firm's price-earnings (P/E) ratio is

    a. 3.88
    b. 4.44
    c. 6.66
    d. 8.33
    e. 8.66

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SECTION B (60 marks): Answer ALL questions.

Question 1

(a) Discuss types of information and the three forms of efficient market hypothesis (EMH). Subsequently, illustrate them in a figure or diagram. **(15 marks)**

(b) Differentiate the two most popular market anomalies, January effect and size effect. **(5 marks)**

(Total: 20 marks)

Question 2

(a) Discuss factors influencing market indexes construction. Then, give one example each for price-weighted and market value indexes. **(7 marks)**

(b) Should an investor invest in companies with low price-earnings (P/Es) or high price-earnings (P/Es)? Discuss. **(8 marks)**

(c) MingPay Berhad's dividend last year was RM1.20. Dividends are expected to grow indefinitely at 7% and the required rate of return for the stock is 12%. What is the value of the stock today? **(5 marks)**

(Total: 20 marks)

Question 3

(a) Assuming you had been newly employed as a technical analyst in Smart Investment Bank Berhad. You use charts and technical indicators to predict the future price movements. You are required to use any TWO (2) popular technical indicators below and describe buy and sell signals for a stock. You are required to indicate x-axis as time and y-axis as price. Label the graph and show them in two separate graphs.

(i) 20 days simple moving averages with current daily price
(ii) Relative strength index (14 days)
(iii) Support and resistance levels
(iv) 50 days simple moving averages with 200 days moving averages

(12 marks)

(b) A firm has a current price of RM40 a share, an expected growth rate of 11 percent and expected dividend per share (D1) of RM2. Given its risk, you require a rate of return of 12 percent. You are required to compute the expected rate of return. Indicate whether the stock is undervalued or overvalued if dividend valuation method is used for strategic investment decision. **(8 marks)**

(Total: 20 marks)

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